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PROBLEMS INVOLVED IN SETTING PRICES
FOR AGRICULTURAL PRODUCE IN HUNGARY

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The October 1954 resolution of the Central Committee of the Hungarian Workers Party criticized the attempts which had been made to depress the general purchasing power of the population, including that of the peasants. However, the problem of the development of agricultural production and of the purchasing power of the peasants is closely connected with the problem of the formation of prices for such products as well as for industrial products used by the peasants.

Peasant income depends largely on price fixing and on the state's influence on free market prices. Price fixing practices in the past erroneously minimized the significance of price formation and there were attempts to influence agricultural production by means other than the financial interests of the producers. According to this theory, price fixing was only the means of controlling purchasing power and its primary function was to solve produce collection problems. Actually the prices of agricultural products are an essential factor in increasing production and the supply of commodities.

It is necessary to clarify certain theoretical and practical problems of price formation, since failure to solve them has handicapped us in laying the scientific foundation for price formation. Certain aspects of this problem were discussed in the December 1953 issue of Tervgazdasagi Anyagszolgáltatás and were later criticized by Jeno Wilcsek in the January 1954 issue of the same publication. In this article we are taking issue with the opinions expressed by Wilcsek.

As evidenced by the experiences of the past several years, disregard of the law of values acts as a brake on the rise of production and of the standard of living. Currently, agricultural production by independent peasants represents a large proportion of the total, and, to a certain extent, their production is regulated by the law of values. For this reason, the effect of the law of values in this connection must be given special consideration. Also, the tasks of the New Course heighten the importance of the law of values, because one of the most important objects of the New Course is the rapid expansion of agricultural production.

Besides the general increase in agricultural production, the problem of the development of the various agricultural products is also of great importance. To meet the demands of the public, industry, and export, increases are necessary in the production of wheat, meat, milk, sugar beets, etc. Prices for these products must be so fixed that they leave a profit for the producer; therefore, the cost of production of the different products must be known.

In preparation for the December 1953 party and government resolution, we made certain calculations on the profitability and production costs of various agricultural products. This was the first time such calculations had been made for products of producer cooperatives and independent farmers. However, the need for such calculations has been denied by certain people, whose view has been expressed by Jeno Wilcsek as follows: "To arrive at the relationship of prices, there is no need for the fictitious separation of the production costs incurred by the peasants Only the over-all profit must be ensured for the independent peasant." This theory of over-all profit brings the general price level of agricultural products to the forefront and considers price policy as a means of fixing purchasing power rather than of influencing production.

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It is difficult to explain this indifference toward the profitability of individual products and the disregard of all previous experience. It is a well-known fact, for example, that Hungarian cattle breeding has lagged behind pig breeding for years, and that wheat production has been lagging behind corn production. The lag in cattle breeding has been due largely to the fact that errors in surrender obligations (such as milk delivery according to the number of cows instead of the area of the farm), the monopoly of cattle buying, and the low prices for the cattle combined to make cattle breeding the least profitable branch of animal breeding. The price for slaughter cattle was only 30 percent below the price for slaughter hogs before the liberation, while it was less than 50 percent of this level between 1949 and 1953.

During recent years, the peasants planted less bread grains and more corn than planned, because the high prices for hogs made the production of corn more profitable than the production of wheat. Before the liberation, the price for wheat was, as a rule, higher than that for corn, but in recent years corn has generally sold at higher prices in the free market.

Neither cattle breeding nor grain production can be boosted without an increase in profitability. If we consider the total income of a grower alone, that is, the general price level, we are blinded to the effect of price and revenue movements of the individual products.

Let us consider only one example. If the price for tobacco had been fixed approximately 300 forints per quintal higher this year, then the profitability of tobacco and other products would have been equalized and the sowing plan would have been fulfilled; that is, approximately 100,000 quintals more tobacco would have been produced. The export of this quantity would have been sufficient to counterbalance the 150-million-forint increase in the purchasing power of the peasants and to provide 300 million forints for the raising of the standard of living of wage earners.

Cases of this nature clearly show that the viewpoint of the "total revenue" must result in a fiasco. Previously, this viewpoint often blocked the adjustment of prices. Under the new economic policy, however, the prices for certain products, and thereby the entire agricultural price level, have been raised.

The following example illustrates the magnitude of the possibilities which inhere in a flexible price policy. Currently, the peasants are producing 14,000 carloads of slaughtered poultry per year. Of this total, 1,500 carloads are surrendered to the state, 2,500 carloads are sold in the free market, and 10,000 carloads are consumed in the households of the producers. Let us now assume that the state would set up the following alternative for the peasants: either they must fulfill their surrender obligations at the current average price of 7 forints per kilogram, or they must undertake to surrender seven times as much live poultry at an average of, say, 21 forints, receiving in addition 3 kilograms of poultry feed for each kilogram of surrendered live poultry free of charge.

In our opinion, the amount of slaughtered poultry would increase by 9,000 carloads in a few years, and the peasants would thus surrender 10,500 carloads. This amount would enable the state to export 8,000 carloads more than previously and to sell 2,500 carloads (that is, several times the current amount) to the population of the cities at a price of, say, 20 forints. The poultry export would supply the funds to pay for the surrendered poultry as well as for the 30,000 carloads of feed to be imported and would also increase the income of wage earners by 1.5 billion forints. The income of peasants from surrendered poultry would increase by 2.2 billion forints, one third of which would certainly be devoted to the expansion of production. Certain other revenue items in connection with the increased poultry stock should not be overlooked, such as an increase in feather and egg production which would add several hundred million forints to the national economy.

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From the foregoing it will be clear that a vitally important function of price planning is to ensure adequate profits not only on an over-all basis but also separately from each of the important agricultural products. The prices fixed by the state as applicable to surrender or contractual obligations must be so calculated as to allow an increase in the income of peasants in proportion to the increase in production. Consequently, the desirable proportions in the production of the various agricultural products must be established by price policy rather than by administrative measures, in accordance with the law of values. The socialist state cannot attempt to rescind the law of values but must make expert use of it. This means that the prices at which purchases are made by the state, as well as contract delivery prices, should be adjusted to the free market prices. In examining price relations, however, it is necessary to make allowances for surrender bonuses and payments in kind by the state.

In general, surrender obligations in a People's Democracy have the same effect on price formation as taxes: they affect not only the production of produce subject to mandatory delivery but also agricultural production as a whole.

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